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Sent by email to: [futuresystemoperator@beis.gov.uk](mailto:futuresystemoperator@beis.gov.uk) and [SOreview@ofgem.gov.uk](mailto:SOreview@ofgem.gov.uk)

## Energy Future System Operator Consultation

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

We welcome the broad proposals. We agree that an entity with clear responsibility for strategic oversight of network planning and development and whole-system coordination across sectors is needed to better facilitate the efficient and timely delivery of Net Zero. The creation of the Future System Operator (FSO) should provide the necessary strategic direction to system planning and development in line with policy. We note these are preliminary proposals and, as such, we look forward to the more detailed proposals that will be presented in future consultations. However, we highlight:

- **Conflicts of interest at the distribution network level should also be addressed.**
- **The FSO should not be appointed as the Integrated Rule-Making Body.**

### **Conflicts of interest at the distribution network level should also be addressed:**

We agree the FSO should be a stand-alone, independent entity given the Government's concerns that the potential conflicts of interest if the FSO is owned by National Grid Plc create inefficiency. National Grid plc currently owns electricity and gas transmission networks, Western Power Distribution and the Electricity System Operator (ESO), with the ESO being a separate legal entity within the Group.

While the proposal to create the FSO as a stand-alone, independent entity is meant to reduce inefficiency primarily at the transmission network level, it should be recognised that the same kind of inefficiency is likely to be even greater at the distribution network level. Regional electricity distribution network operators (DNOs), which own, operate and maintain network assets, also undertake system operation. No separate legal entity exists within any DNO ownership group to undertake system operation and robust mechanisms to mitigate conflicts of interest do not exist. Further, existing price control arrangements encourage DNOs to optimise 'internally', which also contributes to the potential for conflicts of interest to arise. These factors mean conflicts of interest and the resultant inefficiency are likely to be even greater at the distribution level, compared to at the transmission level.

We believe robustly addressing conflicts of interest at the distribution level is equally as important as at the transmission level - inefficiency caused by potential conflicts of interest can occur at both network levels. Greater coordination of network planning and development could result in whole system solutions that span the transmission-distribution boundary becoming more commonplace. It is not in consumers' interests to aim to address inefficiency at one network and not the other given both play important roles in facilitating decarbonisation. It is for this reason we welcome the proposal that the FSO, which is independent of the DNOs, could take on distribution system operation (DSO) functions. In the absence of DNO progress in addressing stakeholder concerns about conflicts of interest, Ofgem should seriously consider assigning responsibility for DSO functions to the FSO as part of the its DSO Governance review. Further, the Government should consider the extent to which similar stand-alone, independent system operators and/or other sufficiently robust mitigation to address conflicts of interest at the distribution level could reduce inefficiency.

**The FSO should not be appointed as the Integrated Rule-Making Body:**

We support the FSO undertaking all the existing roles and functions of the ESO, including that of code manager. In the concurrent joint Ofgem/BEIS consultation on the design and delivery of energy code reform, it has been suggested the FSO could act as the Integrated Rule-Making Body (IRMB) - fulfilling both the strategic function and code manager functions.

We do not support the FSO taking on dual roles as the IRMB because we think:

- it is highly unlikely that the FSO could be structured in a way that the strategic function would be sufficiently independent in order to carry out reviews of decisions made by the code manager function; and
- delivering strategic change would become more complex and more difficult to achieve in a timely manner if strategic function responsibilities are split between Ofgem and the IRMB.

Our views are set out in greater detail in our response to the above consultation.

Answers to the consultation questions are included in the attached appendix. I hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

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**Centrica Regulatory Affairs & Policy**  
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